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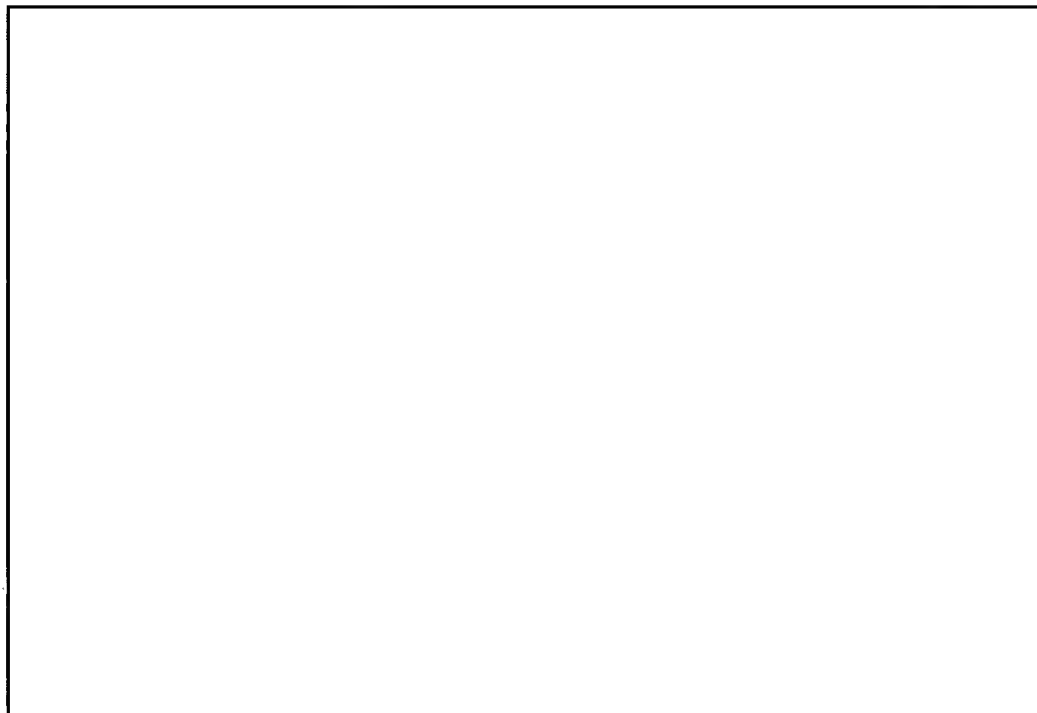
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OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

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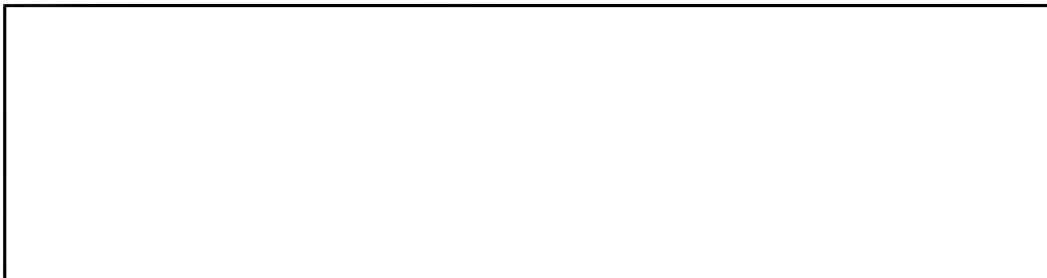
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1. KHRUSHCHEV ATTACKS AERIAL INSPECTION AND QUESTIONS US INTENTIONS

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In a conversation with Governor Stassen on 24 April in London, Khrushchev made a vigorous attack on the American aerial inspection proposal and stated that the

American attitude made the work of the UN Disarmament Subcommittee hopeless. Both Bulganin and Khrushchev expressed doubt that the United States really had any intention of reaching a disarmament agreement.

Khrushchev said the Soviet leaders could not understand why the United States insisted on aerial inspection and that they had refrained from flatly and openly rejecting it only because of their regard for President Eisenhower. He added that Marshal Zhukov was also against the proposal. The Soviet party chief insisted that the USSR did not wish photographs of the United States or of any other nation and that the United States should not try to look in everybody's bedroom and garden or treat the USSR the way Guatemala had been handled.

After suggesting that the time did not seem ripe for disarmament, Khrushchev asked if the United States would reduce its armed forces if the USSR would cut its forces by 1,000,000 men and make a corresponding reduction in armaments. In reply to Stassen's question, he said no inspection of such reductions would be needed.

Khrushchev also declared that the USSR was ready to make a beginning by reducing its armed forces in Germany without waiting for a solution of the German question.

Comment

In talks with both British government leaders and Labor Party chiefs, the Soviet leaders have made the American aerial inspection proposal

their chief target. They have made no effort to resolve differences between the Soviet and Western approaches to disarmament and have given no sign of any serious interest in an arms agreement.

Khrushchev's query regarding United States willingness to match a Soviet force reduction suggests that the USSR may soon issue a public challenge to the United States along these lines. Moscow may also attempt to place the Western powers on the defensive by making a unilateral reduction in its forces in East Germany. The Soviet disarmament proposal of 27 March called upon the four powers to reduce their forces in Germany "to a figure to be determined by each of them at its own discretion."

2. LABORITE REBUFF TO SOVIET LEADERS

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[REDACTED]

The Soviet leaders' hopes of wooing British Laborites have obviously foundered, the American embassy in London concludes. At the Labor

[REDACTED]

Party dinner for Bulganin and Khrushchev on 23 April, Khrushchev's belligerent speech evoked general hostility. Party leader Hugh Gaitskell and left-wing spokesman Aneurin Bevan presented a united front in pressing the guests to release imprisoned Social Democrats and trade unionists in Communist countries. Khrushchev's disclaimer of responsibility for actions by the Satellites evoked hilarious laughter.

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Khrushchev was overheard to remark, "I found it much easier to talk to the Conservatives than to the British Labor Party."

Although Bulganin informally asked Labor leader Gaitskell to visit Moscow, no formal invitation for an official Labor delegation was extended. The embassy believes Labor's rebuff, in addition to strengthening Eden's hand in his concluding talks with the Russians, may cause Moscow to change its tactics toward Western European Socialists. The embassy also believes Khrushchev's performance at the dinner will have a considerable impact on Socialist leaders in Western Europe.

In the opinion of USIS in London, only some dramatic twist at the end of the visit could reverse the Russians' unfavorable impact on the British public.

Comment

Khrushchev's performance, which has widely offended the British public, should virtually eliminate any expectations the public may have had for a real change in basic Soviet objectives under the collective leadership.

3. FRANCE SEEN WILLING TO NEUTRALIZE GERMANY IN RETURN FOR DISARMAMENT AGREEMENT

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[REDACTED] Socialist leaders now heading the French government are prepared to accept a re-unified, neutralized Germany which would have no exclusive ties to the West, in the personal view of Ambassador Dillon. He believes that the Mollet government would link such a status for Germany to a general disarmament agreement with the USSR which would reduce the forces of the US, USSR, and Communist China to a figure between 1,000,000 and 1,500,000 men and leave France and Britain with 650,000 each.

Dillon points out that Premier Mollet admits the French government's disarmament policy is now based on the views of Jules Moch, French delegate to the UN Disarmament Commission, who has always favored severe restrictions on German rearmament.

Comment

Khrushchev's surliness on his British tour and his rigid stand on disarmament in talks with British officials will probably shake French Socialist hopes for a disarmament agreement with the USSR. Nevertheless, the general French yearning for a detente and for some way to avoid actually rearming Germany lends great appeal to such a solution.

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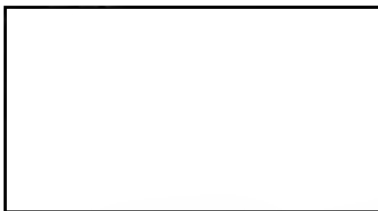
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**6. GUATEMALAN PRESIDENT FEARS COMMUNIST
DOMINATION OF HONDURAS**

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Guatemalan president Castillo, in a conversation with American ambassador Sparks on 23 April, showed "genuine fear" of possible serious political developments in Honduras. He said that although Honduran Liberal Party leader Villeda Morales is not a Communist, his accession to the presidency would lead to a Communist-dominated government in Honduras.

Castillo said he will meet with Honduran chief of state Lozano and ex-dictator Tiburcio Carias at their request, probably on 30 April.

Comment

The political situation in Honduras is disturbed but probably not so ominous as Castillo sees it.

Lozano is encountering opposition from both the right and the left in his efforts to line up support for his election as head of a "national union" government after the restoration of constitutional government, probably late this year. On the right are followers of Carias and on the left the radical faction of the Liberal Party headed by Villeda Morales. Villeda, who has a record of Communist associations, received 48 percent of the votes for president in the 1954 elections. Since that time, however, many prominent Liberals have deserted Villeda in favor of Lozano.

Lozano, who has dictatorial powers and enjoys the loyalty of the army, is expected to make every effort to prevent Villeda from coming to power. He would prefer, however, to achieve his goal by democratic methods.

7. JAPAN-PHILIPPINE REPARATIONS AGREEMENT

Comment on:

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The announcement by Japanese negotiator Aiichiro Fujiyama that complete agreement has been reached with the Philippines on reparations of \$800,000,000 for World War II damages means the removal of a major obstacle to Japanese trade expansion in South-east Asia. Parliaments of both countries are expected to ratify the agreement, which provides for \$550,000,000 direct reparations, mostly capital goods and services, and for \$250,000,000 in long-term loans and investments over a period of about 20 years.

These Japanese reparations will be a major source of aid for the future economic development of the Philippines. At the same time, Philippine restrictions against Japan will probably be eased as a result of this agreement, and trade will increase substantially between the two nations. Such a development should help to offset the loss by Japan of its prewar China market.

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8. STRIKE SITUATION DETERIORATING IN NORTHERN SPAIN

Comment on:

The strikes in the town of Bilbao in northern Spain have become more serious as a result of both the government's tougher attitude and the workers' determination to carry on the fight for better wages and working conditions, the American consul in Bilbao reports. The local authorities' action in closing plants and dismissing the employees has now affected nearly 25,000

workers. The government's disapproval of recent wage agreements has aroused additional worker antagonism.

The increase in security precautions at the closed plants will not preclude incidents, particularly since another strike is rumored brewing at Pamplona, where the workers feel they were tricked into returning to their jobs. The government's apprehension that strikes and demonstrations may spread is indicated by General Franco's speech of 24 April, which assailed critics of his regime and declared that the Falange "would rise again" as it did during the civil war if it became necessary.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 25 April)

UN secretary general Hammarskjold is expected to announce on 26 or 27 April that new arrangements regarding the activities of UN truce observers have been concluded with Egypt and Israel, according to UN officials in New York. The officials said these arrangements merely reaffirm existing rights, but will permit greater freedom of movement and patrolling by the observers. Hammarskjold will also ask for 20 more observers to be provided by Sweden, Norway, Canada, Australia and New Zealand. UN officials said that Hammarskjold, in view of strong Israeli feeling, was planning to ask Egypt to discuss Egyptian restrictions on the Suez Canal on a "personal basis." Egypt has previously maintained that questions other than those connected with an immediate cease-fire were beyond the scope of Hammarskjold's mission.

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has informed the American embassy in Cairo that considerable friction in the Revolutionary Command Council (RCC) has arisen as a result of Prime Minister Nasr's virtually unreserved co-operation with the Hammarskjold mission and his failure to work out an agreed position with his RCC colleagues beforehand. that Hammarskjold, because of this reaction, will find Nasr less amenable when he revisits Cairo during the course of his mission.

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Lebanon has announced that it has accepted "in principle" UN secretary general Hammarskjold's proposals on the implementation of the Security Council resolution concerning the relaxation of tension between the Arab states and Israel. Hammarskjold is now in Jordan.

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